MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

BBF3034 – ANALYSIS AND VALUATION OF FINANCIAL STATEMENTS

(All sections / Groups)

17 OCTOBER 2016
2.30 p.m – 4.30 p.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 4 pages with 5 Questions only.

2. Attempt **FOUR** out of **FIVE** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

a. You are required to prepare an Income Statement for StraightForex Sdn. Bhd. as at May, 30, 2016 using only the following information.

- Sales are RM 3 million (50% is credit sales and 50% is cash sales)
- As of May 2016, the company has purchased a total inventory of RM 1.2 million.
- Cash on hand is 1% of sales.
- The company has bought a machinery for RM 2.5 million on credit as it is expected to generate sales for the company for 20 years. Assuming there is no salvage value and the company is adapting straight line depreciation method.
- Inventory as at 30th May 2015 is RM 800,000.
- The company also incurred RM 900,000 of administration cost in which 60% is paid in cash and the remaining 40% is unpaid.
- Inventory as at 30th May 2016 is RM 700,000.
- The company received a cash rental amount of RM 200,000 as at May 2016.

(20 marks)

b. One of the reasons why managers intend to manage earnings is because of the desired bonus. Thus, they are implementing various ways to manage the reported earnings. Give TWO strategies using which managers can manage the reported earnings. Your answers have to be explained in full. (5 marks)

(Total: 25 marks)

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QUESTION 2

a. Below are selected ratios for Widget Sdn. Bhd. and Tools Sdn. Bhd. Use this information to answer the following questions.

	Widget Sdn. Bhd.	**Tools Sdn. Bhd.**
Net Operating Asset Turnover	2.0	2.0
Inventory Turnover	4.6	4.0
Account Receivable Turnover	12.0	12.0
Fixed Assets Turnover	1.8	2.0
Net Operating Profit Margin	4.5%	2.9%
Asset to Equity	2.1	3.3
EBIT/Revenues	9.9%	8.6%
Gross Margin	21.1%	19.8%
Income Tax Rate	35.0%	35.0%

Compute the return of net operating asset (RNOA) and return on common equity (ROCE) of both the companies. (8 marks)

b. Given the following information, compute the inventory turnover and the return on assets for SmartInvest Sdn. Bhd. for 2015.

	2015 (RM'000)	2014 (RM'000)
Sales	2,456	3,778
Cost of Goods Sold	15,101	11,184
Net income	172	202
Interest Expenses	50	55
Total Assets	1,800	1,950
Inventory	2,809	2,260
Tax Rates	35%	35%

(6 marks)

c. InvestGold Sdn. Bhd. has given the below information. Determine the working capital, owners' equity, and current ratio for 2015.

	2015 (RM'000)	2014 (RM'000)
Current Assets	158	163
Long Term Assets	453	502
Current Liabilities	102	143
Long Term Liabilities	302	348
Net Income	32	42

(6 marks)

Continued...

d. Ratio analysis provides some insights for either investors or creditors. Kindly describe THREE important areas of financial ratio analysis. (5 marks)

(Total: 25 marks)

QUESTION 3

Your friend told you that it is a "profitable deal" to buy Kishen Company's stock. Kishen's stock was trading at RM25 per share at the beginning of year 2016. Kishen Company's year-end 2015 book value of equity is RM100,000 and the earnings for 2015 are RM30,000. The earnings are expected to grow at a rate of 10% for the next four years after which the growth rate of the earnings are expected to be constant at 5% per year. Kishen Company currently has 10,000 shares outstanding and its cost of equity capital is 15%.

a. Use an accounting based valuation model to estimate the value of Kishen's equity on January 1st of 2016. (22 marks)

b. Determine whether you should invest in Kishen Company's stock as at January 1, 2016. (3 marks)

(Total: 25 marks)

QUESTION 4

Shaarvin Company's comparative balance sheets for 2014 and 2015 are shown below.

Shaarvin Company's Balance Sheets as at December 31, 2014 and 2015

	2015	2014
Cash	RM 100,000	RM 130,000
Receivables	440,000	420,000
Inventories	90,000	55,000
Total current assets	RM 630,000	605,000
Equipment	590,000	450,000
Accumulated depreciation - equipment	(160,000)	(110,000)
Total assets	RM 1,060,000	RM 945,000
Accounts payable	RM 70,000	RM 65,000
Total current liabilities	RM 70,000	RM 65,000
Bonds payable	220,000	180,000
Common stock	390,000	340,000
Retained earnings	380,000	360,000
Total liabilities and equity	RM 1,060,000	RM945,000

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The following additional information is available for year 2015:

I. net income for the year 2015 was RM50,000
II. an equipment that cost RM10,000 (with a book value of RM2,000) was sold during the year for RM4,000.

Based on the information provided, answer the following:

a. Determine the operating cash flow (10 marks)

b. Determine the cash flow from investing (5 marks)

c. Determine the cash flow from financing (7 marks)

d. Determine the net change in cash (3 marks)

(Total: 25 marks)

QUESTION 5

a. Selected ratios for Isha Corporation for year ended Year 1 are:

Working capital	= RM20,000
Current ratio	= 3
Net profit margin	= 30%
Inventory turnover	= 4

Below is a set of transactions that are not reflected in the ratios above. Consider each transaction independently and indicate its effect on the above ratios. Explain your answer.

1. Decrease in the ending accounts receivables for Year 1. (6 marks)

2. Useful life of depreciable assets was increased at beginning of Year 1.(6 marks)

3. Decrease in the ending inventory for Year 1. (6 marks)

b. Describe any 2 (TWO) characteristics of a good performance measure. (4 marks)

c. There are three types of factor models that seek to identify a parsimonious set of factors that explain stock returns. Identify these three (3) factor models. (3 marks)

(Total: 25 marks)

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